

Pig Market Trends

July 2014, Issue 110

In this Issue

Outlook for UK supplies

Latest AHDB/BPEX forecasts for UK pig meat supplies point to an increase in availability in the coming months. This has the potential to sustain the recent softening of domestic pig prices. However, much will depend on how demand responds both at home and on export markets. To read more about the outlook for UK pig meat supplies, turn to **page 4**.

Northern Ireland

While the Northern Ireland pig industry is not a key player in the global pig trade, the region has become increasingly important for Ireland and GB, given its close proximity. The total number of pigs on farm in 2013 reached its highest level since 1999, making up around 10% of the UK herd. Read more about the pig industry in Northern Ireland on **page 5**.

EU pig meat consumption

Demand for meat in the EU has generally slowed since the economic downturn in 2008, particularly for red meat. However, in comparison to beef and lamb, pork has performed relatively well. As you can read on **page 7**, data from key countries for early 2014 provide further confirmation of this. However, while the EU economic outlook suggests some improvement, growth is likely to be sluggish and some uncertainties remain.

EU production costs

Recent falls in feed prices will have been welcome to pig farmers everywhere. This is particularly true of many producers across the EU, where subdued pig prices since the autumn have meant that margins have remained tight. Read about the latest margins for EU pig producers and what this might mean for future production on **page 8**.

Online meat sales

Online grocery sales will more than double in the next five years, according to IGD. The need for longer use by dates and product quality assurance are two of the key challenges facing fresh meat in the online channel. Nearly half of online grocery shoppers say they prefer to buy fresh foods in-store rather than buying online. You can read more on what this means for red meat on **page 10**.

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Key data

	Jun-14	Change since May-14	Change since Jun-13
GB DAPP (euro-spec) – p/kg dw	164.07	-0.18	-2.72
Average GB carcass weight – kg	79.18	-0.71	+0.36
30kg weaner price - £/head	56.39	+0.26	+4.63
7kg weaner price - £/head	41.32	+0.45	na
GB APP (Euro-spec) - p/kg dw	165.51	-0.61	na
GB cull sow price – p/kg dw	na	na	na
EU Reference price – €/100kg dw	170.88	+6.92	-1.20
UK Reference price – €/100kg dw	197.80	+2.87	+7.21
UK weekly clean pig kill – 000 head	192.9	+5.1	+6.8
UK weekly pig meat production – 000 tonnes	16.1	+0.3	+0.9
UK pork imports – 000 tonnes*	30.5	+1.0	+0.3
UK bacon imports – 000 tonnes*	20.8	+0.8	+1.9
UK pork exports – 000 tonnes*	16.2	+1.1	+2.6
Retail pig meat sales – 000 tonnes†	52.8	-2.4	-0.2
LIFFE feed wheat futures - £/tonne	141.81	-13.54	-25.26
CBOT Soyameal futures - \$/tonne	469.98	-22.42	+13.15

* Figures relate to May 2014

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 22 June 2014

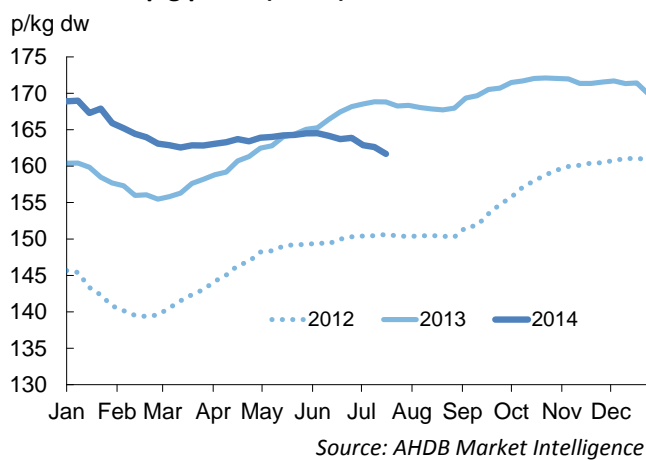
Interested in data? Get more detail about these and other areas from the [BPEX website](http://www.bpex.org.uk)

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UK Market Snapshot

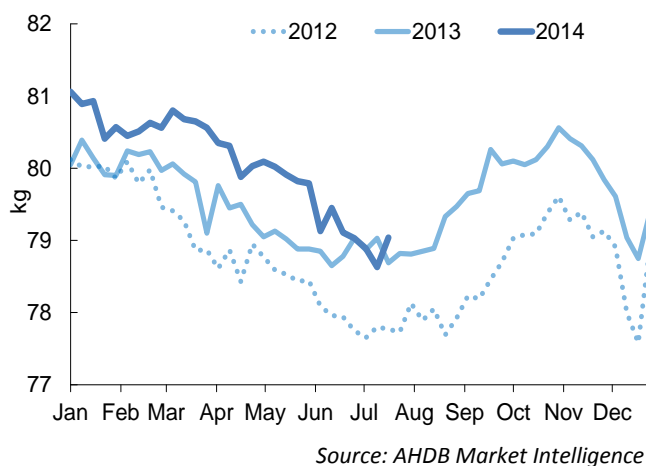
The EU-spec DAPP in June edged down from the previous month to average just over 164p per kg. Subdued consumer demand, low EU prices and the strengthening pound continued to put pressure on finished pig prices during June. The monthly average marked almost a 3p decline, the largest year-on-year fall since March 2011. Similarly the average monthly APP also fell marginally, to 165.51p per kg in June, which indicated a 1.44p difference between the two price series. Furthermore, finished pig prices continued to decline in the first three weeks of July. For the week ended 19 July, the EU spec DAPP fell to 161.68p per kg, its lowest level since April 2013 and, at 7p, the biggest year-on-year fall since October 2010.

GB finished pig prices (DAPP)



The average carcass weight in the DAPP sample for June came down marginally to 79.18kg. This meant pigs were around 700g lighter compared with the previous month. Declines in carcass weights are expected during this time of the year, as higher temperatures slow down weight gains amongst pigs. However, the latest monthly average remained above the previous year's level, by around 400g, although in early July weights have been close to those in July 2013.

Average carcass weights for GB finished pigs

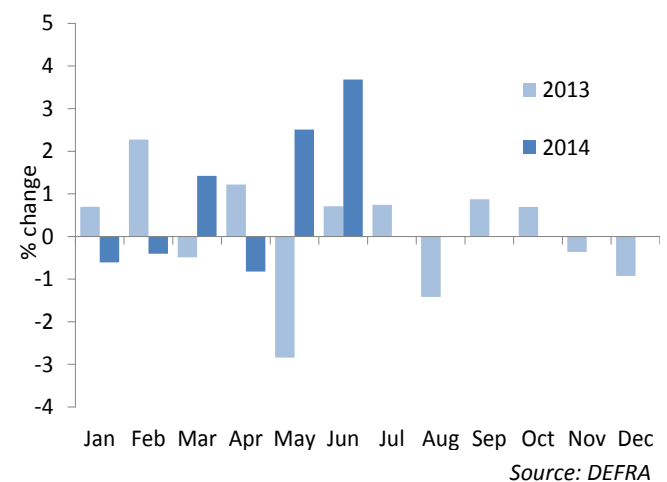


In contrast, the 30kg weaner market strengthened during June, with the monthly average price standing at £56.39 per head. This was 26p higher than the previous month but the year-on-year change showed prices around £5 above

year earlier levels. Weaner prices of late indicate some stability in producer confidence, with falling feed costs offsetting the softening finished pig prices. There was a similar trend in the 7kg weaner market, where the average price for the month increased by 45p to £41.32 per head.

At 771,700 head, UK clean pig slaughterings in June were up by 4% compared with the same month in 2013. This was the largest year-on-year growth in two years. The rise in throughputs suggests further productivity gains but may also mean that some pigs were marketed a little earlier, given good growing conditions this spring and falling finished pig prices of late. The number of pigs that entered English abattoirs increased by 4%, while there was a smaller rise in Northern Irish throughputs, up by 2% on a year earlier. Scottish slaughterings were up by 7%, the first year-on-year rise since the closure of Halls of Broxburn in October 2012. This brought the total UK kill for the first half of the year to almost 5 million head, up 1% from same period in 2013.

Annual change in UK clean pig slaughterings



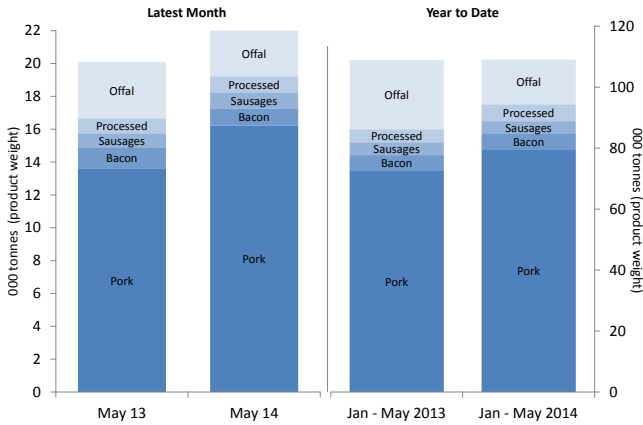
In contrast, there was a 7% decline in the number of adult sows and boars slaughtered in June, to 18,700 head. The six month figures for adult pig cullings showed a tight supply situation as prices remained subdued; throughputs were down by 3% on the year before. Finished pig carcass weights for June edged down slightly from the previous month, to 80.0kg. This still meant pigs in the UK were 2% heavier in the latest month, compared with June 2013. Consequently, pig meat production in the month totalled 64,500 tonnes, up 6% on a year earlier. The half year figure for pig meat production showed a 3% increase in supplies, to 418,900 tonnes.

The UK's pork export market performed strongly in May, with shipments up 19% on a year earlier at 16,200 tonnes, the highest May monthly figure since 2000. This came despite a strengthening pound, indicating some preference for UK pork, both on European and international markets. Exports to other EU members increased by 9% but supplies to the leading EU market, Germany, slipped by 12% compared with a year earlier. Shipments to China reached 2,600 tonnes, more than double their level in May 2013

UK Market Snapshot

and a swift reversal from the decline in the previous month. UK offal exports, on the other hand, fell by 19% on May 2013. The decline was mainly due to lower shipments to the EU, down from 1,460 tonnes in 2013 to 650 tonnes in 2014. China, however, imported 60% more UK offal, doubling its importance among the UK's export markets.

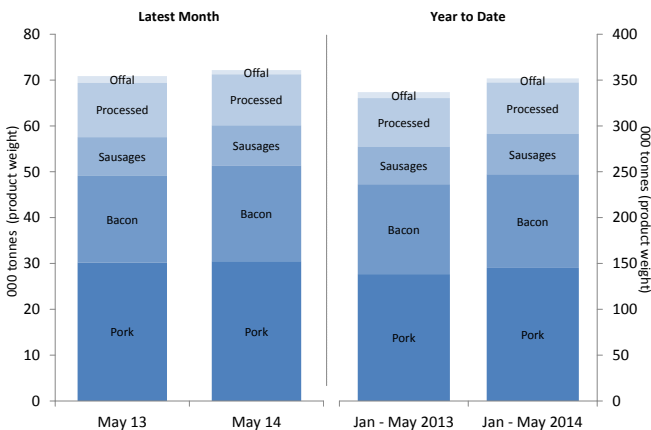
UK Pig Meat Imports Exports



Source: Her Majesty's Revenue & Customs

At 30,500 tonnes, pork imports in May were only marginally up on the previous year. There were lower imports from the three main suppliers, Denmark (down 5%), Germany (-1%) and the Netherlands (-8%). Together, these three markets represent just under two thirds of UK imports. However, the declines were offset by increases from smaller markets, including Belgium, Spain and France. Partly as a result of the stronger pound, the average import price was down by just over 2%, which brought the total value of supplies down by 2% to £61.3 million. Bacon imports rose by 10% in the month, with higher quantities from Denmark, in particular. Similarly, sausage supplies rose by 5% on May 2013 but imports of other processed pig meat declined by 6% year on year.

UK Pig Meat Imports

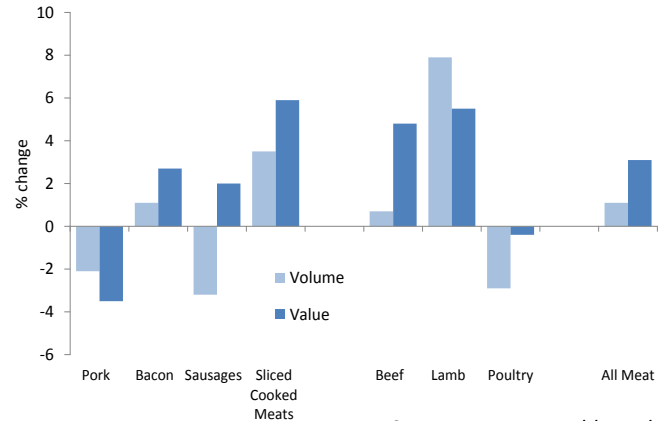


Source: Her Majesty's Revenue & Customs

Shoppers' spending on pork was down 3.5% year on year in the 12 weeks ended 22 June, according to the latest Kantar Worldpanel data, while volume purchases were down 2%. The reduction in spending was mainly driven by chops/steaks which were down 9% year on year. The amount of chops/steaks sold was down almost 8% but

belly was the only other cut to experience a decline in volumes. A fall in the number of households purchasing was the biggest driver of the fall in chops/steaks, followed by households buying less frequently. This development will have been affected by fewer promotions at the major multiples than a year ago. The discounters continue to buck the decline in sales, as expenditure on chops/steaks was up an impressive 38%.

Annual percentage change in retail meat purchases (12 weeks to 22 June 2014)



Source: Kantar Worldpanel

Spending on sausages was up 2% over the latest period compared with a year earlier, even though purchases were down 3%. Growth came from all categories with the exception of premium sausages, which were down against the strong performance of a year ago. Expenditure on bacon was up 3% on the same period of last year, as volumes were up despite prices experiencing a small increase. Sliced cooked meats also enjoyed good demand, while spending on ham was up 4%, with the hard discounters once again enjoying the strongest performance.

According to data published by the EU Commission, the UK has some of the best carcase classification results in the EU. In 2013, 78% of commercial pigs slaughtered were classified as S grade and 21% were grade E. There has been a steady improvement in the quality of pig carcasses in the last 25 years; at the beginning of the period most pigs classified as E or U. The UK enjoys a particularly good performance, as in the EU as a whole only 51% were classified as grade S in 2013 and 38% grade E. Only Spain had such good results as the UK in 2013, while grade E was the most important category in countries such as Germany and the Netherlands.

New Defra figures show that the number of English commercial farm holdings with pigs was little changed in the year to June 2013, at 7,800. However, the number of holdings with more than 1,000 pigs was up 6% to just over 1,200, accounting for 84% of English pigs. There was a 1% fall in the number of farms with breeding pigs, to 4,375. There was a 6% fall in holdings with 100 or more sows, to 650, with 88% of English sows in these larger holdings.

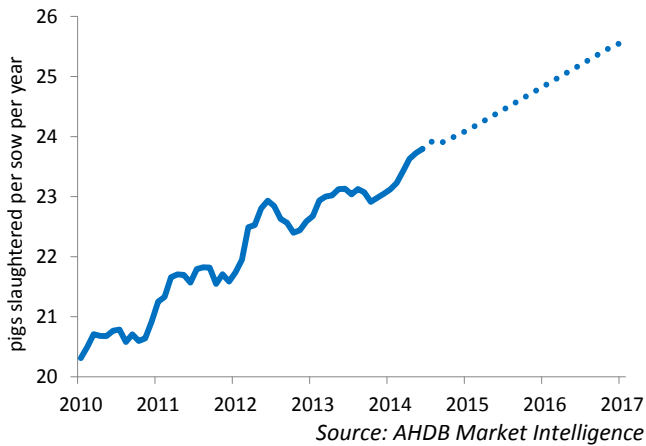
UK Market Analysis

Demand key to outlook as UK pig supplies increase

Latest [AHDB/BPEX forecasts for UK pig meat supplies](#) point to an increase in availability in the coming months. This has the potential to sustain the recent softening of domestic pig prices. However, much will depend on how demand responds both at home and on export markets. Demand has been sluggish of late, particularly on the domestic market, and future prospects are uncertain.

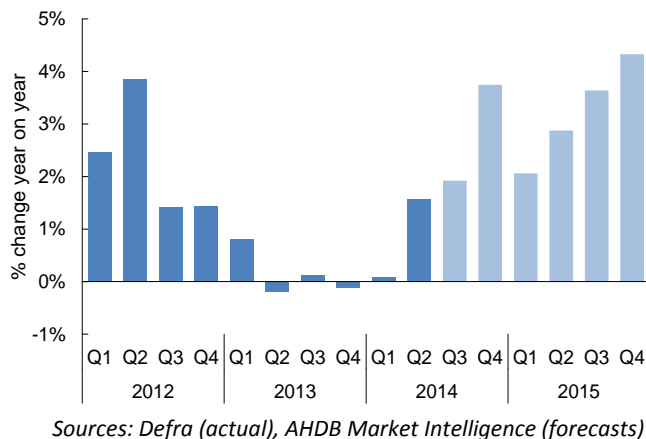
UK clean pig slaughterings in the second quarter were higher than expected. Throughputs were up 2% overall at 2.46 million head, the biggest rise in two years. This suggests that productivity has been even better than expected, with the number of pigs slaughtered per sow per year approaching 24; it was below 20 as recently as 2009. The rate of improvement has been broadly consistent over the last four years and this is expected to continue in the medium term.

Actual and forecast trends in productivity in the UK sow herd



The recent upturn in slaughterings may also reflect the mild weather this winter, which will have meant better growth rates, leading to some pigs being marketed earlier. This could mean some short-term tightening of supplies in the next couple of months. However, with the breeding herd thought to have stabilised and productivity continuing to improve, throughputs are expected to rise further for the rest of this year and into 2015.

Actual and forecast change in UK clean pig slaughterings

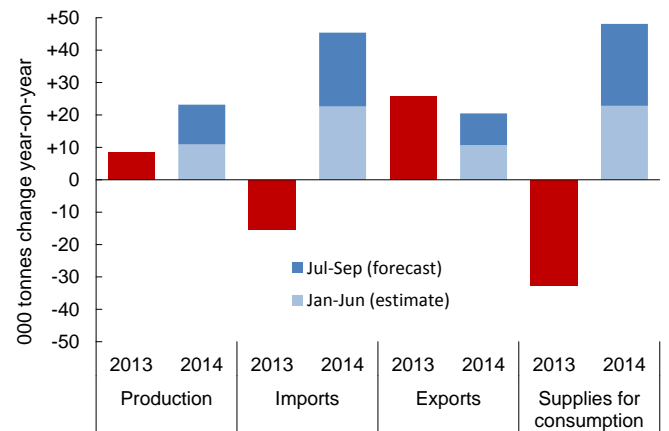


Of late, carcase weights have fallen close to last year's levels. If this continues, it may help to mitigate the forecast rise in slaughterings to some extent, so that the growth in domestic pig meat output in the second half of this year may be only slightly higher than in the first.

Imported pig meat is also likely to remain more plentiful. In the first half of the year, there was a 5% increase in supplies from overseas and a similar rise is forecast for the second half. Although increased demand from other export buyers has largely offset the loss of the Russian market, there is still some surplus product on the EU market. This has helped to keep prices on the continent well below those in the UK; the gap is still around 20p per kg, while this time last year it was less than half that and falling. The strengthening pound has also contributed, reducing EU prices by around 7p in sterling terms since the start of the year.

Despite the exchange rate movement, export growth is continuing. With supply shortages and high prices globally, UK pork remains competitive on key export markets, notably China. However, any increase will be insufficient to make a big dent in the level of supplies on the domestic market.

Trends in UK pig meat supplies



Sources: Defra, HMRC, AHDB Market Intelligence

Overall, the latest forecasts suggest a 3% rise in supplies available on the UK market. This is currently being met by subdued consumer demand, particularly for fresh pork. Much of the additional meat, particularly from imports, is therefore likely to be finding its way into lower-value processed products or foodservice.

Inevitably, this is starting to pull pig prices lower. Whether this trend continues will depend on how demand responds. So far, the improved economy hasn't led to increased meat sales – in fact, quite the opposite. However, once holidays are over and the weather turns colder, that situation could easily change. Equally, export demand could strengthen further, given the tight supply situation globally, particularly as the second half of the year is usually better for exports to the Far East. This suggests that, while they may continue to ease, pig prices could well stay strong by historic standards.

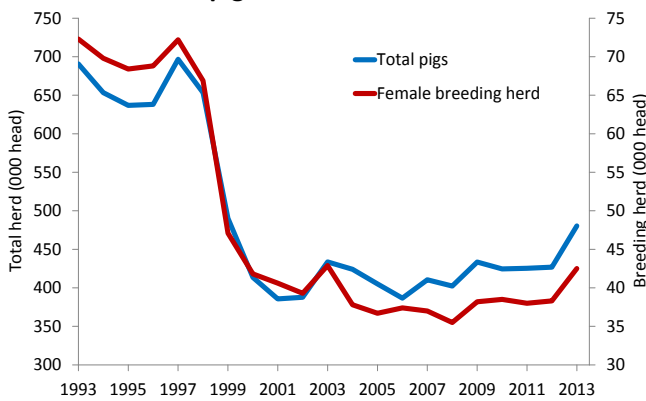
UK Market Analysis

Northern Ireland Pig industry Overview

While the Northern Ireland pig industry is not a key player in the global pig trade, the region has become increasingly important for Ireland and Great Britain, given its close proximity. The Northern Ireland pig industry is fairly compact, accounting for around a tenth of the UK pig herd and 16% of pig meat production. As the country has only around 3% of the UK's human population, this means it produces a surplus of pig meat.

The total number of pigs on farm in June 2013 reached 480,300 head, the largest pig herd since 1999, although the increase was partly due to a change in methodology. This may indicate the start of a recovery from the recession in the pig market, which started in June 1998 when a fire in Northern Ireland's largest processing plant left large surpluses of pigs on farm. The oversupply in the industry led producers to put down pigs and dispose of carcasses, leading to huge losses and a sharp decline in the breeding herd size.

Northern Ireland pig numbers

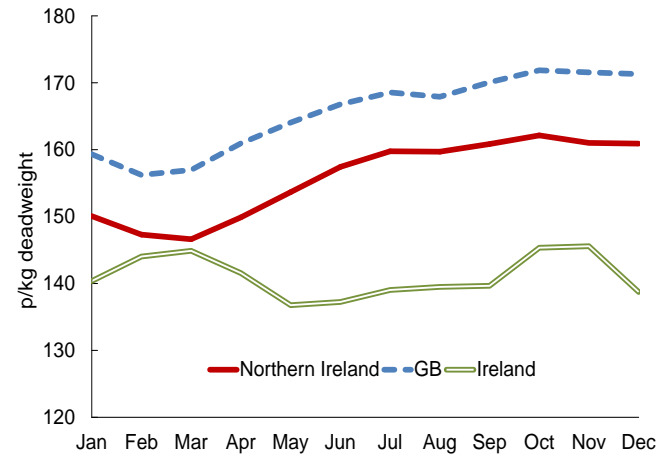


Source: Department of Agriculture and Rural Development (Northern Ireland)

As in the rest of the UK, there has been increasing consolidation of pig farms in Northern Ireland over the years. The pig industry mainly consists of large scale operations, with almost three quarters of sows on 55 Northern Irish farms, with high concentrations in the counties of Fermanagh, Tyrone, Armagh and Down, allowing easier cross-border trade.

According to the figures estimated by AHDB/BPEX, UK per capita pig meat consumption in 2013 stood at 24.1kg. Assuming levels are similar in Northern Ireland, it would consume only around a third of its domestic production. The remaining two thirds of pig meat is exported, mainly to Great Britain. Given a typical farmgate price differential of around 7-10p/kg, exporting farm assured (Red Tractor) pig meat makes this an optimal position for Northern Ireland. This means producers do not have to directly compete with their neighbours, Ireland, where pig prices are even further below GB (by around 25-30p/kg recently). However this attracts cheap imports from Ireland. In fact, lower priced Irish supplies are typically consumed in the Northern Irish market.

Northern Ireland, GB and Ireland pig prices, 2013



Sources: DARDNI, AHDB MI, EU Commission

It is no surprise that Northern Ireland imports pigs from south of the border. In 2013, Northern Ireland slaughtered 1.6 million pigs, of which 571,200 pig were imported, according to DARDNI. However, Irish trade statistics show only 339,200 pigs crossing the border. Political issues may explain part of the difference (since many in Ireland wouldn't regard moving pigs to the North as 'exporting'). It is also worth noting that Northern Ireland imports some weaners from Ireland for finishing, which does not require a license and therefore may not be included in the Irish exports statistics. In addition, there is potentially an economic gain for Northern Ireland producers from unrecorded movement of pigs, which may contribute to inaccuracy of statistics on the cross-border pig trade.

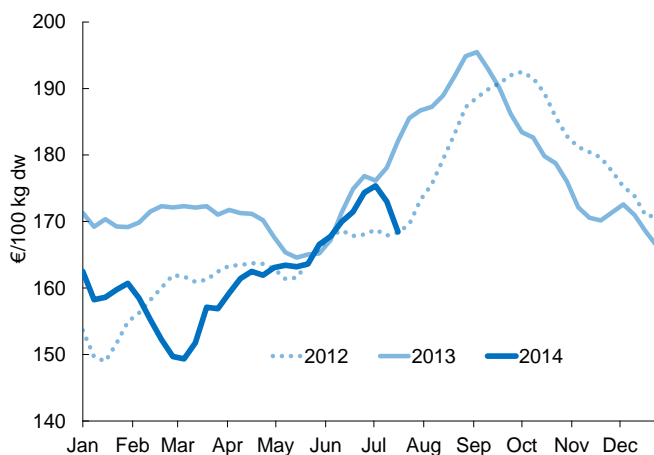
As in the UK, the Northern Ireland pig industry faces several feed and price related challenges. Northern Ireland grows minimal quantities of cereals, which are typically poor quality and mainly used in ruminant feed. Consequently, it is dependent on feed imports, so producers are fully exposed to the global market price, along with transportation costs. As such, feed costs account for as much as 75% to 80% of Northern Ireland pig production costs. In addition, there are only two main abattoirs in Northern Ireland, limiting competition and exposing producers to further risks should these plants come under threat. There was certainly growing tension when Vion announced it was to cease all UK operations 18 months ago, which could have left producers in the same position as in 1998 until the management buyout (as Karro) was agreed.

Looking forward, with the latest census showing signs of recovery, a general improvement in farm performance and relatively lower feed costs of late, Northern Ireland pig producers are in a good position to edge towards expansion. Nonetheless, the extent to which producers are able to do so is largely dependent on demand from Great Britain. Health status could also have an influence on expansion plans in an area with such a high concentration of livestock.

EU Market Snapshot

The EU pig price in June averaged €170.88 per 100kg, up on the previous month by almost €7. This was the highest monthly average for the year so far. Firm demand from the export market partly contributed but pig prices were mainly encouraged by tight supplies in the EU. However, the latest monthly price quotation remained around €1 below the previous June's level, indicating that the Russian ban continues to cause some weakness in the EU pig market. The latest monthly average showed the UK pig price almost €27 above the EU one, with the stronger pound contributing to this. Nevertheless, the gap had narrowed considerably from the start of the year when the differential was £38. EU prices took a backward step in early July as the start of summer holidays hit demand in Northern Europe. By week ended 20 July, the average price had fallen to €168.43 per 100kg.

EU Average Pig Reference Price

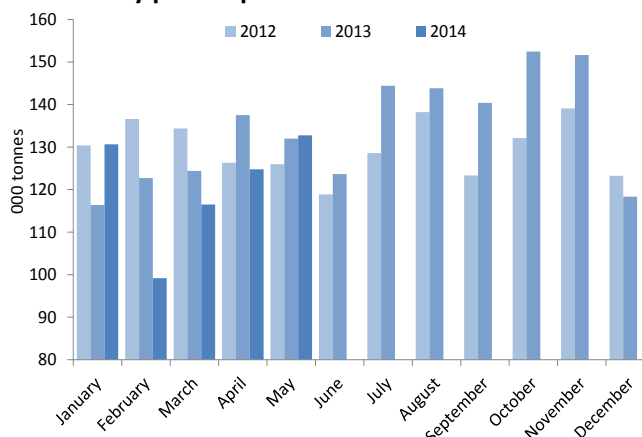


Source: EU Commission

Supply shortages in Germany led finished pig prices in June to increase by €10 on the month before, the biggest rise since last August. Prices amongst the major northern EU producers followed, with Polish and Dutch prices rising by over €8. Ireland, Belgium and Denmark recorded €6 increases. In contrast, further south, the French market weakened slightly, as pig prices fell by around €1, while Spanish prices rose by less than a euro.

At 132,800 tonnes, EU pork exports in May were marginally higher compared with 2013. This represented the first year-on-year rise since the Russian ban on EU pork imports was imposed in February. The export market held up well despite the loss of the Russian market, which took around 28,500 tonnes of EU pork in May last year. In the latest month, Japan replaced China as the primary market for EU pork exports, as shipments to Japan almost doubled, while supplies to China came down by 9% from a year earlier. Part of the surplus was picked up by South Korea (up 40%) and Hong Kong (up 13%). Many smaller markets also took greatly increased volumes of EU pork. The value of EU pork exports in May increased by 3% to €319 million.

EU monthly pork exports

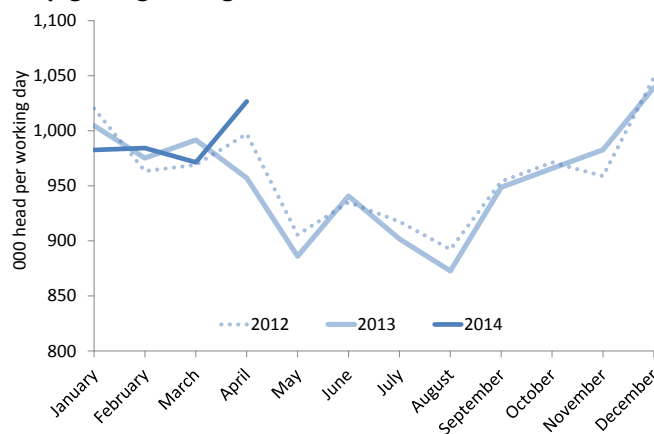


Source: Eurostat, GTIS

Similarly, pig offal exports rose marginally in May, to 90,000 tonnes. As usual, the majority of the offal was destined for China and Hong Kong. However, strong performance in several smaller markets, mainly in Asia, accounted for most of the growth, offsetting the loss of the Russian market. The value of offal exports in May totalled €98.9 million, down 5% on a year earlier.

EU slaughterings in April fell by almost 3% compared with the same month in 2013, although they were still higher than in March despite the shorter working month. Easter holidays meant fewer working days this year as last year Easter was in March. In fact on a per working day basis, slaughterings were 7% higher than a year earlier. This brought EU pig meat production to just over 1.8 million tonnes, down almost 4% from April last year as carcass weights have also been lower.

EU pig slaughtering trends



Source: Eurostat

Pig throughputs on Eastern European markets recorded large increases, led by a 23% rise in Poland compared with April 2013, partly given increased imports of weaners. Similarly, there were higher slaughterings in Hungary (up 12%) and Romania (up 7%). However, these increases failed to offset the declines for the other key Member States. The major producers in Western Europe recorded significant declines, with Dutch and German throughputs down on April last year, by 14% and 4% respectively, while throughputs at Danish plants were 12% lower.

Global Market Analysis

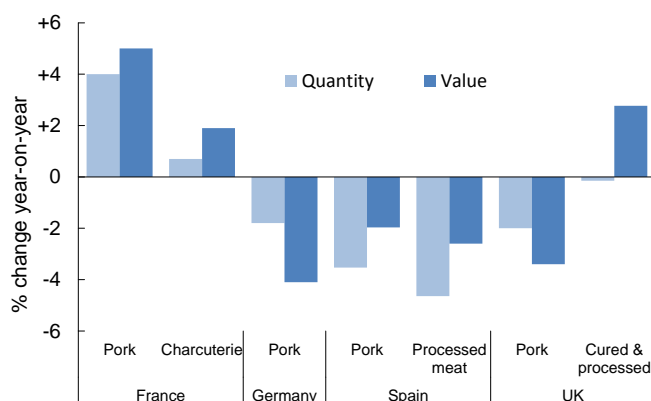
EU pig meat demand holding up

Demand for meat in the EU has generally slowed since the economic downturn in 2008, particularly for red meat. However, in comparison to beef and lamb, pork has performed relatively well. Data from key countries for early 2014 provide further confirmation of this.

For France, Kantar Worldpanel data up to 18 May show much higher fresh pork purchases (up 4%), despite a 1% increase in prices, indicating firm demand. The market for ham and other charcuterie products is more important than fresh pork, accounting for a third of total meat purchases, and volume growth amounted to almost 1%, with a similar rise in prices. Pig meat was the only category to record an increase as beef, lamb and poultry meat purchases were all down, as a result of higher prices compared with the same period in 2013.

In contrast, in other major markets the amount of pork and processed pig meat purchased during the first five months of 2014 was lower than a year earlier. However, this was part of a general decline in meat purchases and pig meat generally fared better than its competitors.

Annual change in household pig meat purchases, January-May 2014 v 2013



Sources: Kantar Worldpanel, GfK/AMI, MAGRAMA

In Germany, there was a 1% decline in pork purchases; further falls may have been mitigated by declining prices (by 2%). Even then, demand for pork held up better than competing meats at a time when protein sales have been slow, according to market intelligence organisation AMI. Higher retail prices for poultry meat (up 3%) contributed to the 2% reduction in purchases, while household purchases of beef and minced meat were both 3% lower.

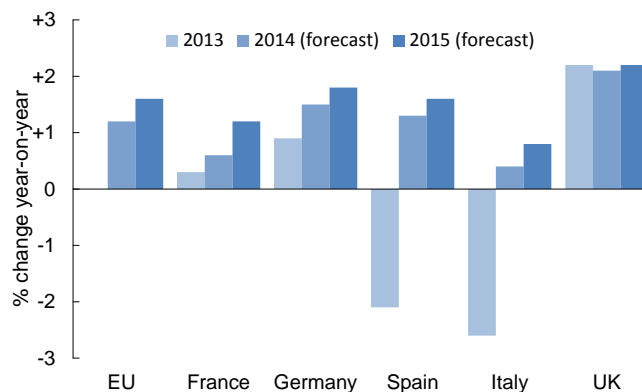
The continuing difficulties in the Spanish economy are having a significant impact on meat consumption. In the first five months of 2014, total meat sales were down 7% on a year earlier, according to figures from the Agriculture and Food Ministry. Inevitably pig meat was affected by this, with a 4% fall in pork purchases, while volumes of processed meat (which is mainly pig meat) were

down 5%. However, beef, lamb and chicken all suffered even larger declines. Somewhat higher prices contributed to the decline in volumes, with spending only down by 2% for pork and 3% for processed meat.

Data for Italy indicate that household purchases of pig meat in early 2014 also showed a decline, especially fresh pork, with salami holding up somewhat better.

The EU economic outlook, while suggesting some improvement, still indicates only sluggish growth and some uncertainties remain. This will continue to affect consumer spending; the European Commission forecasts a 1% rise in private consumption expenditure in 2014, compared with stagnation in 2013. This is being helped by some increase in confidence but still with an element of caution and it may take until 2015 before consumer spending growth becomes more sustained.

Annual change in private consumption expenditure



Sources: European Commission

The modest improvement in consumer spending could give a small boost to pork, depending on price levels relative to other meats, particularly poultry meat. Three of the largest pork markets in the EU, Spain, Italy and France, are expected to experience only slow economic growth, of 1% or less, in 2014, as recovery lags behind the rest of the EU. In contrast, for the largest pork market, Germany, the economic outlook is more favourable with growth expected to be nearer 2% this year.

Slow demand could continue to impact on the EU pork market for the rest of 2014 and into 2015. It will make it more difficult to find a market for any surplus supplies following the Russian ban on EU pork. Although demand from Asian markets is strong, more high-value cuts will inevitably be directed towards the UK. This could have some impact on prices throughout the supply chain, especially as the strong pound means that EU pork is cheaper on the UK market. How much impact this has will depend, in part, on how quickly demand recovers across the EU.

Global Market Analysis

EU producers missing benefits of lower production costs

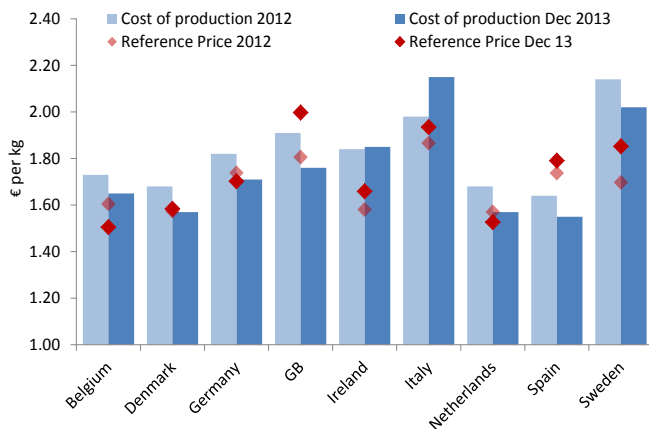
Recent falls in feed prices will have been welcome to pig farmers everywhere. This is particularly true of many producers across the EU, where subdued pig prices since the autumn have meant that margins have remained tight. This contrasts with the situation in the UK, where pig prices have remained higher, ensuring that producer margins have been positive throughout the last year.

Figures from the EU Commission show that during the first six months of this year, compound pig feed prices were, on average, 15% lower than in the same period last year. However, during the same period, pig prices averaged 3% lower than in 2013 across the EU. In contrast, the fall in UK feed prices, at 17%, was even bigger than the EU average, while pig prices here averaged 2% higher than in the equivalent period last year.

Every year, AHDB/BPEX publishes a [report comparing pig production costs across the EU](#), using data from InterPIG, an international group of pig economists. The group includes members from most of the major producing countries in the EU. In 2012, average production costs in the EU ranged from €1.64 per kg in Spain to €2.14 per kg in Sweden, with the average standing at €1.81. Of the EU members of InterPIG, Spain was the only country with full production costs lower than its average pig reference price in 2012.

Although full 2013 production costs won't be available until later in the year, InterPIG members periodically provide updated feed prices. Using these, we can estimate what effect any price movements would have on production costs, assuming nothing else has changed. Nine countries provided feed prices for December 2013. Based on these quotes, seven of the nine showed reduced costs, compared with 2012 as a whole. Nevertheless, in most countries, producers were still breaking even or making a loss. Spain remained the only country other than Great Britain where producer margins were clearly positive.

Costs of pig meat production and pig prices in selected EU Member States



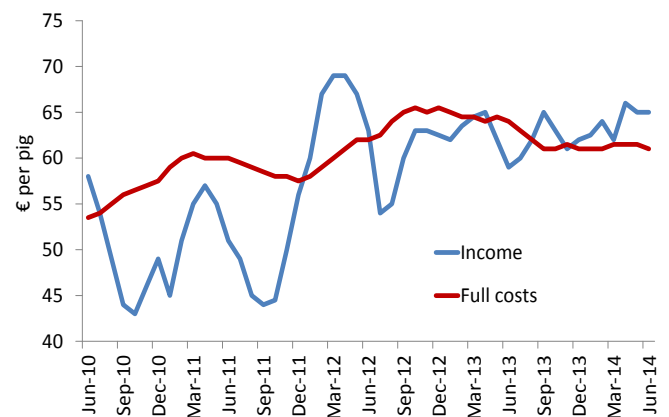
Source: InterPIG, EU Commission

The challenging financial position of producers in late 2013 and early 2014 is confirmed by German market intelligence organisation AMI, which publishes regular estimates of margins for both breeding and finishing. This should be broadly representative of the overall situation across the EU as German pig prices are normally close to the EU average, while its costs are also in the middle of the range.

AMI's calculation of finishing margins compares slaughter pig prices with the cost of buying weaners and feed. In the early part of 2014, this margin was very small, indicating producers would have been making losses when other input costs are taken into account. By June, the margin had improved to €17 per head, enough for finishing to be profitable but still short of the levels reached last summer.

The position of German pig breeders has been even more challenging in recent years. After four years when margins have been negative much more often than positive, they remained very tight at the start of this year. As with finishing, the situation has improved somewhat as this year has progressed, with an estimated profit of €4 per piglet in June. Nevertheless, with German weaner and cull sow prices both starting to fall in recent weeks, it may not be long before these profits are wiped out again.

Estimated costs and income of German pig breeders



Source: AMI

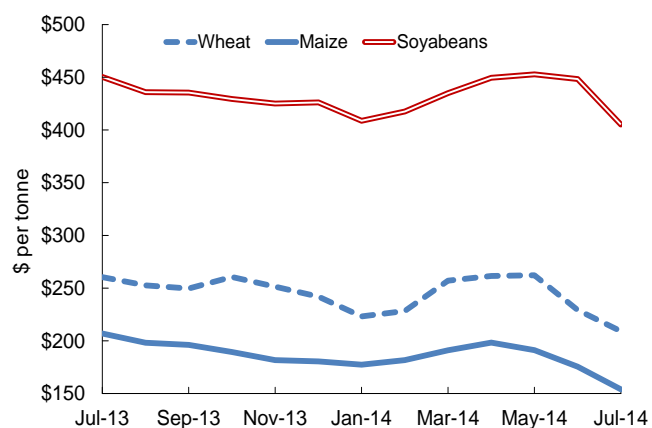
With producers, and particularly breeders, struggling to make money, there seems to be little prospect of a significant expansion of the EU herd in the short term. This is backed up by provisional figures from the German May census, which show only a 1% increase in its breeding herd over the preceding year. Census results from other countries are expected in the next month or so. While these may show some recovery in Eastern European herds, the overall picture is set to be one of stability rather than growth.

Although improving productivity should mean a return to rising output in the year ahead, growth is set to be modest. Subject to reasonable demand, this should keep pig prices relatively firm, which could mean better profitability in the year ahead if feed markets remain bearish.

Feed Market

Nov-14 LIFFE wheat contract prices closed at £127.65/t on Tuesday 24 July. Prices have declined by £6.85 since the beginning of July, and £24 since the start of the year. Recent disturbing images and headlines from Ukraine have served to remind the world that the region is far from stable. Grain markets were initially driven upwards by the breaking news of the shooting down of a passenger jet, helping UK feed wheat futures to break above £130/t again. Nevertheless, with no direct impact on grain supply prospects in the region and strong global supplies beginning to become reality, prices dipped lower again.

New crop Chicago (CBOT) futures contract prices for wheat, maize and soyabeans



Source: AHDB/HGCA

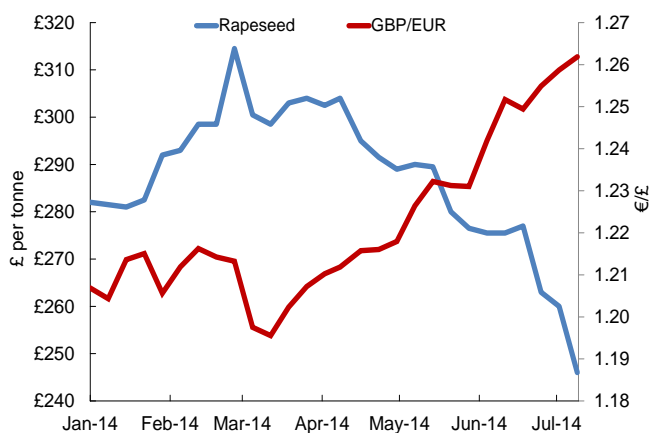
The Northern Hemisphere wheat harvest is continuing to progress, although rain in Europe is putting a question mark over its final quality. Much of the bearishness is coming from the maize market, where key Northern Hemisphere producers such as the US, China and Ukraine are experiencing very good crop conditions. In the US, near-perfect growing weather for the Corn Belt is creating the best crop conditions in 20 years, in stark contrast to the drought experienced during the 2012/13 season.

Trade data from HMRC reveal that lower availability of wheat following the particularly poor harvest in 2013 has meant lower export levels during 2013/14. With higher yields forecast and a positive outlook for the UK harvest in 2014, it is likely that export figures will increase during 2014/15 to reach more 'normal' levels, last achieved in 2011/12. Wheat exports in May 2014 declined 23% on the previous month. Cumulative seasonal exports for 2013/14 (Jul-May) are at particularly low levels in comparison to previous years; declines of 40% have been seen year on year and 84% in comparison to 2011/12.

Strong supply fundamentals and favourable growing conditions have impacted bearishly on the oilseeds complex throughout the last month, with prices hitting new contract lows during July. Nov-14 Paris rapeseed prices have dropped €22.75/t since the start of July 14 and €31.75 since the turn of the year. Chicago Nov-14 soyabeans prices have fallen \$23.15/t since the start of July.

In Europe, confidence is growing toward the size of the rapeseed crop, with Oil World increasing its EU-28 production forecast for 2014 to a record 22.7Mt, 1.5Mt higher than last year. The favourable growing conditions, harvest pressure and the strength of sterling against the euro have combined to put pressure on UK delivered oilseed prices. UK delivered rapeseed prices (Erith, Nov-14 delivery), have been on a descending trend this year. By 18 July, they had experienced a substantial decline of £68.50, since peaking at £314.50/t in early March. Delivered soyabeans and meal prices have followed similar trends.

UK weekly delivered Rapeseed prices and sterling: euro exchange rates



Source: AHDB/HGCA

A study, prepared by ADAS has concluded that improved oilseed rape varieties, with a lower glucosinolate content and a thinner seed coat, could have a real value in the pig and poultry feed market. Ways to improve the nutritional value of rapeseed and meal for non-ruminant livestock have been explored as part of a new [HGCA Research Review](#).

The latest trade data released by HMRC indicate that 7.3Kt of rapeseed was exported in May 2014, the lowest monthly volume since October. Equally, 3.9Kt of rapeseed was imported into the UK in May 2014, down 2.5Kt from April, and the second lowest in the 2013/14 season to date.

The latest USDA supply and demand report provided bearish information for the market this month. There were relatively few old crop changes for soyabeans. For 2014/15, the main change was the increase to US soyabeans production after the higher planted area figure from the recent USDA Acreage report. The result was a 4.5Mt increase to US soyabeans output (assuming trend yields) to 103.4Mt, further into record territory. Although demand was also increased for the US (+1.1Mt) and China (+1Mt), it was not enough to offset the higher production. Consequently, global soyabeans stocks are now projected to reach 85Mt by the end of 2014/15, compared to 67Mt at the end of 2013/14 and 56.8Mt at the end of 2012/13.

In Brief

The online challenge for red meat

Online grocery sales will more than double in the next five years, according to recent research by the retail trade body IGD. This impressive growth will be fuelled by new market entrants such as Morrisons, the rollout of click & collect, lower delivery charges and greater shopper engagement with mobile technology. The channel, which was worth some £7.7bn in the year to April 2014, is expected to be worth £16.9bn by 2019 and will see its share of grocery shopping rise from 4.4% to 8.3%. Currently, 27% of shoppers use online for some grocery shopping, up from 22% in 2010, with 1 in 10 using this channel for the majority of their grocery purchases.

The need for longer use by dates and product quality assurance are two of the key challenges facing fresh meat and other fresh foods in the online channel. According to IGD, over half of all online grocery shoppers say they prefer to buy canned and packaged food and drinks and non-food products such as detergents and toiletries online rather than in-store. However, there is a significant swing in sentiment for fresh food – nearly half say they prefer to buy fresh foods in-store rather than buying online. Only a fifth (18%) say they prefer to buy these products online, which compares with 45% for frozen food.

According to Kantar Wordpanel, online sales of fresh red meat were worth £176.4m and accounted for 5% of total sales in the year to June 2014. Expenditure grew by almost 22%, fractionally ahead of the growth rate for total grocery through this channel. When looking at the growth drivers, we see that all measures are up with the exception of the amount being bought per online shop. This trend will be influenced by shoppers being incentivised to buy more frequently by retailers trying to lock in consumer spend with subscription delivery services.

Looking at pork specifically, prices were marginally down and, as a result, it experienced the strongest volume growth of 21%, compared to 14% for beef and 8% for lamb. However, value growth was also only 21%, slightly below the whole red meat category. In terms of cuts, mince accounted for 44% of total fresh red meat spending, compared to 30% at total market level. The stronger showing, driven by beef mince, is not surprising as product quality tends to be more consistent.

Looking ahead, whilst clear opportunities exist from online for red meat, the challenge will be to convince shoppers that they will obtain the same quality buying online as they would picking themselves in-store. Allowing online shoppers more opportunities to state their product preferences (such as for different meat thickness) could be one way to reassure them that they can pick the same items as they can in-store.

Small increase in German breeding pigs

Latest data show a 1% increase in German breeding pig numbers in the year to May 2014, to 2.1 million head. However, the breeding herd size remained below 2012 levels. Overall, the German pig herd rose by 1% to 28.1 million head. Although pig numbers have stabilised, the number of pig farms continues to fall. The total number of farms was down 4% to 27,100, while, at 10,500, there were 6% fewer farms with breeding sows.

US pig numbers affected by PEDv

According to USDA figures, the US pig herd stood at 62.1 million head on 1 June, down 5% on a year earlier. The sharp decline was due to PEDv but a reduction in new cases meant numbers were only 1% down on 1 March. The breeding herd was broadly stable but slaughter pig numbers were 5% lower than in June 2013. Sow farrowings increased 1% in December to May and there was a 2% increase in intended farrowings during June to November. This suggests that, if PEDv can be controlled, there is potential for production to recover relatively quickly next year.

PEDv drives global meat prices higher

Latest figures from the UN FAO show that global meat prices reached record levels in June, mainly due to stronger pig meat prices, as supplies tightened due to the impact of PEDv. The rise in pig meat prices is confirmed by latest export data from the four main exporters; pork export prices started the year at around US\$3 per kg but by May they had reached a record \$3.40 per kg, nearly 30 cents above the previous high in 2011.

Global growth in meat production to slow down

According to the FAO/OECD Global Outlook, world meat output growth is set to slow in 2014-2023 compared with the previous 10 years. Pork will show similar trends, with poultry overtaking it as the leading meat by 2020. Consumption is also set to rise, with growth concentrated on developing countries. Per capita pig meat consumption is expected to increase only marginally.

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